REMARKS FOR WILLIAM M. FLYNN
CHAIRMAN
NEW YORK STATE PUBLIC SERVICE COMMISSION

PRESENTATION TO:
FEDERAL ENERGY REGULATORY COMMISSION
OPEN MEETING

OCTOBER 20, 2005
WASHINGTON, D.C.

Good morning, Chairman Kelliher and commissioners. Thank you for the opportunity to discuss some of the steps we are taking in New York State to address the issue of rising natural gas prices and the impact of those prices on customer heating bills and electricity prices. This is a topic that we have been discussing internally since early summer. At that time, New York's utilities began injecting gas into storage to meet anticipated demands in the upcoming winter heating season at prices that were significantly higher than in years past. Staff expressed concern to me on a number of occasions that, based on the price for gas going into storage, winter heating bills would likely be significantly higher this year. Over the course of the summer, it has become more clear to us how much higher those bills would be.

At last month's Commission session, the Commissioners and I listened to presentations summarizing the current situation we are facing in terms of natural gas prices and their impact on electricity prices. The typical residential gas heating bill in New York State will likely be 30 to 45 percent higher than it was last year, and last year's bills were already 25 to 30 percent higher than the year before. We expect to see increases in the price for delivered electricity by as much as 35 percent depending on the specific fuel mix and hedging strategies employed by each of the utilities around the state. *{Note: natural gas fueled 17% of electric generation in 2003 statewide}*

While prices for natural gas had been trending upward over the past few years, Hurricanes Katrina and Rita caused immediate spikes in the price for gas on the futures market and cast some uncertainty over the adequacy of flowing supplies for the northeast region due to the area's reliance on the Gulf region for much of its gas needs. I have been receiving regular updates on the ability of the LDCs in New York to obtain adequate supplies and it is clear that the damage to the infrastructure in the Gulf region impacted supplies to New York for the coming winter season. The utilities are developing strategies in case the level of supply disruption continues through the winter, including accessing supplies from other regions or imposing more frequent interruptions for non-firm customers.

At the Commission, our immediate concern was how these unprecedented prices would impact New York's low-income and senior citizen population. The Commission voted unanimously last month to reallocate $500,000 in our public benefit programs for energy efficiency for the purpose of doubling our winter outreach and education initiative for this season. We have now put in place a $1 million outreach plan in conjunction with the state's Consumer Protection Board and the New York State Energy Research and Development Authority to help customers better prepare themselves for the winter. The effort will make use of radio, TV and print advertising, direct mailings and an aggressive public relations strategy to inform New Yorkers of the national circumstances we are confronted with and the steps they can take to mitigate the impacts of rising heating fuel prices. These steps include improving the efficiency of their homes, enrolling in budget billing programs, contacting local social service agencies for payment assistance, and shopping for a natural gas supplier that can offer the best pricing and service package to limit the impacts of volatile prices. These outreach and education efforts are essential to equip customers with the tools they need to take control over their own heating bills and to offer financial assistance to those low-income and senior citizens who are less able to absorb the impact of higher heating bills.

In addition to our own outreach efforts, I called on each of New York's LDCs to take similar steps to help their customers deal with these unprecedented price increases. National Grid, for example, approached the Commission earlier in the year to use an additional $5 million in ratepayer funds from a deferred account to enhance the state's SBC efficiency efforts. Their plan was to use this $5 million to offer additional efficiency incentives for low-income customers in their territory. The Commission approved that request in August and I held it up as an example of what I wanted the other LDCs to consider as we enter this winter. We are still receiving ideas from the LDCs at this point, but I expect that the Commission will receive a complete report from my Director for Consumer Services at our monthly session meeting scheduled for next week. In addition, my Consumer Services Director will report on her own efforts to encourage LDCs to be more flexible this winter in dealing with issues like bill arrearages, service shut offs, and flexible bill payment schedules.

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At the start of my remarks I mentioned that we saw early warnings that heating bills this winter would likely be higher than normal as a result of the price LDCs were paying for the gas they were injecting into storage. Gas storage is one step that the Commission encourages LDCs to take in order to hedge against higher prices for natural gas in the winter season. Since 1998, we have had policies in place designed to shield customers from the kinds of price spikes we are seeing today. The Commission policy statement encourages the LDCs to develop a diversified portfolio using a variety of tools including fixed price purchases, storage, financial hedges, and market-priced supplies.

Prior to the 1998 policy guideline, New York's LDCs purchased the vast majority of their flowing gas through contracts that reset the price monthly based on a specified market price index, which did not provide price diversity or protection against market volatility. As the result of the Commission guidelines, LDCs have increasingly used various methods to price gas purchases. On average, about 35% of the New York LDCs' projected 2005-06 winter supplies are from storage, 30% are hedged and 35% are market priced. The level of hedging outlined by the Commission's policy statement provides customers with some protection against fluctuating prices.

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Additionally, a topic of utmost importance this winter is communication among all of the relevant government agencies and market participants. Each year, the Public Service Commission participates in a winter fuels outlook meeting with other state agencies, LDCs as well as home heating oil retailers and others involved in the state's heating fuels industry. The purpose of this meeting is to essentially ensure everyone is on the same page and has the same understanding of the outlook for all heating fuels going into the heating season. In fact, this meeting was held just yesterday in Albany.

This winter, we are taking additional steps to foster better communication in the New York City area in particular. Given that most of the generators operating in New York City rely on interruptible gas supply that could be curtailed due to supply constraints, there are obvious concerns about the price and availability of fuel to electric generators this winter. The staff of the Commission will be meeting on Monday, October 24 with representatives of the LDCs serving New York City, as well as the New York Independent System Operator, the New York State Energy Research and Development Authority, the New York State Department of Environmental Conservation and various generators. This meeting will focus on the impacts of the hurricane on gas supply and operational issues related to supply interruptions and fuel balancing for generators.

Where FERC may be of some assistance to the states and industry is in the area of communications between LDCs and pipelines during times of emergency. Timely and complete communications are crucial to ensure the reliability of natural gas delivery systems. As a result of FERC rules, an electronic bulletin board has been established as the primary means of communicating information among pipelines and LDCs. Under most circumstances, this is an appropriate means of communications and it serves to protect the integrity of competitive markets by ensuring that all market participants have access to the same level of information to maintain a fair and level playing field. However, during emergency situations such as we have seen this fall with Hurricanes Katrina and Rita, it is important to ensure that these rules do not present a barrier to the personalized and instantaneous communications that may be needed by individual market participants to ensure safe and reliable natural gas service. While I am not aware of any specific circumstances where safety and reliability were jeopardized in New York State as a result of communication difficulties following these hurricanes, the issue was brought to my attention that the bulletin boards in and of themselves may not be adequate during a crisis. I would respectfully urge FERC to review its rules concerning these types of communications to ensure that the rules do not hinder LDC efforts to maintain safe and reliable operations during times of emergency.

Lastly, my staff has alerted me about inconsistencies in reporting shut-in production data for those facilities under state jurisdiction. At the appropriate time, I think that FERC could be helpful in working with the states and federal government to ensure greater market transparency by improving access to state-level data.